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August 7, 2023

By email: comments@pcaob.org

Public Company Accounting Oversight Board (PCAOB)
Office of the Secretary
1666 K Street NW
Washington, D.C. 20006-2803

Re: Proposing Release: Amendments to PCAOB Auditing Standards related to a Company's Noncompliance with Laws and Regulations and Other Related Amendments; PCAOB Rulemaking Docket Matter No. 051

Dear Sir/Madam,

Tyler Technologies, Inc. (NYSE: TYL) is writing to express our concerns with the proposed changes outlined in the PCAOB's proposing release, *Amendments to PCAOB Auditing Standards related to a Company's Noncompliance with Laws and Regulations and Other Related Amendments*. Tyler Technologies, Inc., an S&P 500 company headquartered in Plano, Texas, provides integrated software and technology services to the public sector with clients in all 50 states, Canada, the Caribbean, Australia, and other international locations.

Our key comments and concerns include:

Increased focus in areas where auditors do not have expertise

The proposal introduces new concepts, such as "could reasonably have a material effect," "has or may have occurred," and "likely to have occurred," which would require auditors to evaluate and identify applicable laws and regulations with potential material impacts on financial statements. To identify laws or regulations for which noncompliance could have a material impact first requires the identification of the set of laws that could impact an entity. However, auditors generally lack any legal training and expertise, and broadening their scope to both assess compliance with innumerable and complex laws and regulations and evaluate the potential direct or indirect impact to the financial statements exceeds their core competencies. Further, public companies typically operate in multiple jurisdictions, including international jurisdictions. The scope of laws and regulations that could impact an entity is vast and assessing them requires expertise across many jurisdictions and areas of the law. This would require the use of multiple legal specialists on every audit engagement of every public company. Adding this scope to an audit engagement would likely divert focus and resources away from the audit and potentially decrease the effectiveness and objectivity of financial statement audits.

Substantial increase to the cost of the audit

One of the most problematic concerns with the proposal is the significant increase in audit cost. In addition to the burdens imposed on audit firms described above, the proposed expanded scope lacks a corresponding and clear quantification of potential costs or scope boundaries. Audit firms will be forced to spend more – and to some extent, unlimited - time reviewing and documenting their discussions with management and their legal experts that would be billed to the public company, resulting in higher audit fees burdening companies and ultimately shareholders with increased operating costs. Smaller filers would particularly struggle to bear this additional financial burden making access to public markets more limited to large companies.

It is not an exaggeration, then, to state that this proposal could adversely affect the flow of capital and ultimately the economy at large. In fact, the economic analysis within the proposal itself acknowledges this risk, noting “auditors would likely need to expend considerable additional audit effort to identify relevant laws and regulations under the proposed standard” and that “the costs associated with the proposed amendments may be substantial.” Yet, the proposal does not otherwise address or resolve this obvious problem.

The proposed amendments would also significantly burden companies beyond the increased audit cost. The financial statement audit would expand to effectively include a compliance audit of the public company’s legal operations, increasing the time spent by in-house and external legal counsel in discussions with auditors and the auditor’s experts, as well as in completing the additional documentation that would be required for audit evidence. The additional time and requirements would result in additional internal or external resources for the public company, again at an increased cost, while not having a commensurate benefit to the public entity and its shareholders.

Risk to legal privilege

The proposed expansion of the auditor's responsibilities to identify, evaluate, and report on compliance with laws and regulations may require increased sharing of information from the public company to the auditor. This threatens the attorney-client privilege and/or other legal protections, creating legal and confidentiality concerns for companies (and another opportunity for increased costs to the company given the time and expense it will have to incur to evaluate those risks). Failure to provide information may hinder auditors' ability to obtain sufficient audit evidence, leading to challenges in the audit process; on the other hand, providing that same information may deprive the company of a legal protection.

It is noteworthy that two of the five PCAOB members, both CPAs, dissented and believe that the concerns that they noted should be carefully reviewed and addressed. We agree.

We appreciate the opportunity to provide feedback on *Amendments to PCAOB Auditing Standards related to a Company’s Noncompliance with Laws and Regulations and Other Related Amendments*.

Sincerely,

Tyler Technologies, Inc.